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South Carolina

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Public Service Commission of South Carolina
Attn: Docketing Department
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Columbia, SC 29211

South Carolina Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, S.C. 29201

RE: Docket No. 2015-160-E and Docket No. 2015-103-E

AARP Comments on South Carolina Electric & Gas Company's Proposed Rate Increases under the Base Load Review Act

AARP South Carolina is grateful for this opportunity, provided by the Public Service Commission of South Carolina ("Commission" or "PSC"), to offer written comments on the pending rate increase requests of South Carolina Electric & Gas Company ("SCE&G" or "Company") under the state law known as the Base Load Review Act ("BLRA"). AARP South Carolina wishes to convey serious concerns about this latest in a series of proposals to increase electric rates on residential consumers for power plants that are not serving them.

AARP South Carolina is respectfully asking the Commission to conduct a comprehensive analysis of the current BLRA process for financing power plants, in order to provide the public with an independent analysis of whether this ratemaking scheme remains the most economic path towards an affordable energy future for South Carolina. Additionally, AARP South Carolina formally requests that the Commission consider changing the time for the hearing scheduled for July 21, 2015 in Columbia, South Carolina to a time in the evening so that more consumers may have an opportunity to participate. Further we request a second hearing to be held in Charleston, South Carolina in the matter of Docket 2015-103-E.

AARP is a nonprofit organization that helps people over the age of 50 exercise independence, choice, and control in ways beneficial to them and to society as a whole. AARP South Carolina has 590,000 members in our state, many of whom are residential electric consumers of SCE&G. These consumers, including those that live on either low

or fixed incomes, depend upon affordable and reliable utility services. Customers over 50 are particularly vulnerable to increases in energy prices, as they, on average, devote a higher percentage of their total household spending on residential energy costs, than do other age groups.

Background on South Carolina's Power Plant Pre-payment Scheme

The Base Load Review Act ("BLRA") was adopted by the South Carolina state legislature in 2007[1]. This law allows the Commission to approve electric rate increases for construction projects that are not yet serving current consumers (and which may or may not ever be completed). The BLRA is very favorable to monopoly electric companies that wish to use money from current customers to finance future projects. This law shifts much of the risk of such projects to captive consumers. It also severely limits the legal remedies that are available to consumers.

In 2008, SCE&G took advantage of the BLRA by filing a Combined Application to impose rate increases related to its construction of the V.C. Summer Nuclear Station Units 2 & 3 ("Projects"). In 2009, the Commission granted the utility increased rates that reflected construction costs and incorporates capital costs, including a high corporate profit of 11.0% (return on common equity, or "ROE") for these Projects.

Six times since the Combined Application was approved, at the same time South Carolinians have been attempting to recover from a devastating recession, SCE&G has requested additional rate increases related to these construction Projects. Each time it has been granted a rate increase by the Commission. These BLRA rate increases have been on top of other rate increases approved by the Commission during this same time period related to SCE&G's current cost of providing utility service. The combined impact of these rate changes has been a dramatic increase of 27.7% for SCE&G electric consumers over the past six years. If the new rate increase is approved, consumers would experience a 31.2% rate increase.

In both 2010 and 2012, SCE&G was also granted permission by the Commission to delay construction on the Projects and to adjust the capital cost schedules further out, driving the potential cost ever upward. In May 2015, SCE&G filed yet another request[2] to delay construction on the Projects further; this pending case threatens to drive the ultimate costs for the Projects even higher. Adding to massive prior cost overruns, the pending request includes new cost overruns totaling $1.2 billion, most of which would be borne by SCE&G consumers. The new projected cost for the Projects is nearing $7 billion and climbing. Unless and until decision-makers take actions to address the perverse incentives of the BLRA pre-payment scheme, its drag on South Carolina's economy seems destined to grow.

Problems with Pre-payment Ratemaking for Power Plants

[1] Section 58-33-210, et al.
[2] Docket No. 2015-103-E.

The BLRA concept of charging consumers in advance for power plant construction is contrary to traditional ratemaking principles for monopoly utility companies. This pre-payment concept is often called "pay-as-you-go" or "construction work in progress", or CWIP for short. Pre-payment runs counter to the "used and useful" principle that says utility consumers should only pay for utility investments that are currently providing them with service. It is also different from the reality faced by a business that operates in a competitive environment, where it must bear the risk of developing a product or providing a service before that business may seek to collect a profit from consumers. Pre-payment shifts the utility's risk of doing business to the utility's current captive customers, with several negative economic side-effects.

Normally, the prudence of embarking upon a power plant project would be borne by the utility building the plant, and if the project is successful and is ultimately proven to be useful and efficient for serving consumers, the utility is rewarded with rate increases that compensate it for its investment plus a reasonable profit (ROE) on that investment for taking the risk. The National Regulatory Research Institute (NRRI), which is funded by public utility commissions, states that pre-payment "involves some upfront shifting from regulated utilities to ratepayers, of the economic timing risks associated with implementing a major capital project."

With pre-payment, the utility is granted financing costs from current customers, plus a profit, even before the project has proven itself. In a sense, current consumers must provide the funds, plus a profit, even though it is consumers that must bear the risk of the project being delayed or not being completed at all. Oversight and accountability is limited with pre-payment ratemaking, primarily because the utility is not driven by the incentive that exists when it has its investment at risk. Cost overruns are the norm with pre-payment projects. Moreover, the BLRA contains no provision for a refund of pre-payment funds to consumers if a power plant project is ultimately found to be not economical, or if it is never completed at all.

Proponents of utility pre-payment financing schemes claim that the general body of consumers will be better off in the long run, due to reduced interest costs. This claim is open to dispute, based upon several assumptions that are made by the utility for a financed power plant that could potentially have a very long service life. The investments made in a large power plant also raise questions about opportunity costs that may arise involving cheaper resource options or energy efficiency opportunities. Moreover, the projections for electric load growth remain very low into the foreseeable future, calling into question how many big power plants will actually be needed to serve the next generation of consumers.

One of the most unfair aspects of the pre-payment for large power plants is intergenerational inequity. Ratemaking principles ideally try to match up the consumers who benefit from an investment with the rates that compensate for the utility for that investment. Forcing current consumers to pay for future power plants violates the cost causer principle of utility ratemaking. Many of the consumers that have been suffering

the BLRA rate increases allowed over the past six years will not be SCE&G customers when or if the Projects ever reach completion (if actually completed).

Cautionary Tales

Other Southeastern states have been experiencing the woes of pre-payment financing. South Carolina may learn from the experiences of those states that are further down similar paths.

In 2006, the Florida Legislature passed a power plant pre-payment law, allowing regulated electric companies to charge consumers in advance for a power plant before it is completed and proven to be viable. As a result Duke Energy customers were forced to pay $1.5 billion upfront for a proposed nuclear power plant in Levy County, before that plant was canceled in 2013. That ratepayer money is lost. Consumers got nothing for those pre-payment fees, and the $1.5 billion will not be refunded.

In 2009, the Georgia Legislature passed a power plant pre-payment law that is similar to the BLRA. As in South Carolina, the risk shifts away from utility management and onto consumers. This has contributed to ever-escalating cost overruns—more than $1 billion in construction delays so far for Georgia Power's Vogtle nuclear power plant project. An analysis filed earlier this month by the Georgia Public Service Commission Staff, questions the ongoing economics of the Vogtle plant financing system. If there is as much as another 6-month delay in that power plant's construction schedule, then it will likely become uneconomic. With such a delay, Georgia Power could also lose its federal loan guarantees, definitively pushing the economics of that plant into negative territory.

AARP South Carolina urges the South Carolina Public Service Commission and the Office of Regulatory Staff (ORS) to perform an economic analysis similar to the one that the Georgia Commission Staff has performed, in order to get an independent idea of whether it makes sense to continue down the current path of pre-payment on the V.C. Summer Projects. With billions of dollars at stake and repeated construction delays, consumers and decision-makers deserve to know whether it has come time to cut losses and to stop forcing consumers to continue to pre-pay for these power plants.

Inflated Corporate Profits

In the meantime, in the context of SCE&G's pending request for an additional 2.8% BLRA rate increase this year (approximately $48 more per year per household), the Commission should shave that request by reconsidering the excessive 11.0% ROE that has been allowed for these projects. The ROE awards allowed this year for most utilities has averaged in the range of 9.5%-9.7%. Allowing an additional profit up to 11.0% for BLRA Project fees is not fair or reasonable. The extra corporate profit that is included in this rate increase request is worth millions of dollars and overwhelms other potential cost savings on borrowing costs that are touted due to the pre-payment scheme. The Commission has an overriding obligation to ensure that electric rates are "just and reasonable" for consumers, not just monopoly utilities.

Conclusion

AARP South Carolina thanks the Commission and ORS for the opportunity to provide these comments. We respectfully ask for your thoughtful consideration of our requests to:

1) Lower the ROE for this and any future BLRA rate increases, and

2) Perform an independent analysis of the economics of continuing the current pre-payment scheme for financing SCE&G's future power plant Projects on the backs of current consumers. If it makes economic sense to stop forcing consumers to pay good money after bad, the public deserves to know sooner than later.

3) Additionally, AARP South Carolina formally requests that the Commission consider changing the time for the hearing scheduled for July 21, 2015 in Columbia, South Carolina to a time in the evening so that more consumers may have an opportunity to participate. Further we request a second hearing to be held in Charleston, South Carolina in the matter of Docket 2015-103-E.

Sincerely,

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